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# Emerging Trends in Strategic Sourcing and Enterprise Spend Management

April 17, 2007

# Introductions

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# A Private Sector Management Best Practice for the Public Sector

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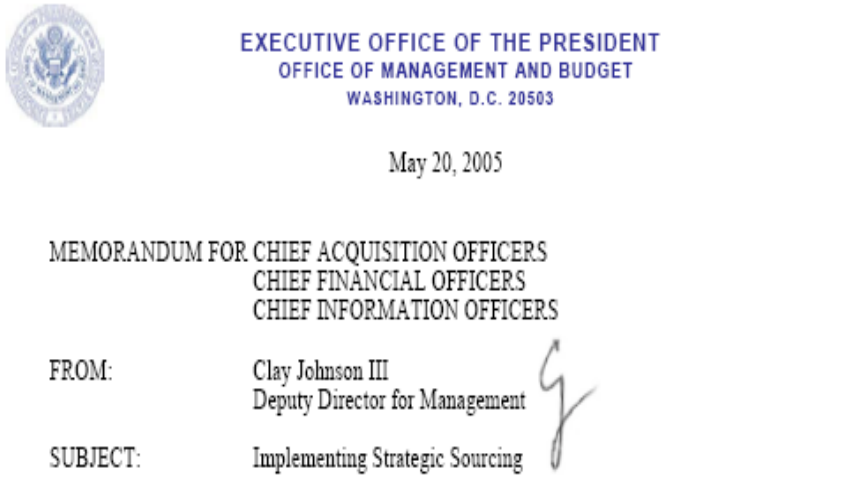

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

May 20, 2005

MEMORANDUM FOR CHIEF ACQUISITION OFFICERS
CHIEF FINANCIAL OFFICERS
CHIEF INFORMATION OFFICERS

FROM: Clay Johnson III
Deputy Director for Management

SUBJECT: Implementing Strategic Sourcing

The federal government spends approximately $300 billion on goods and services each year, and federal agencies are responsible for maximizing the value of each dollar spent. Therefore, agencies need to leverage spending to the maximum extent possible through strategic sourcing. Strategic sourcing is the *collaborative* and *structured* process of critically analyzing an organization's spending and using this information to make business decisions about acquiring commodities and services more effectively and efficiently. This process helps agencies optimize performance, minimize price, increase achievement of socio-economic acquisition goals, evaluate total life cycle management costs, improve vendor access to business opportunities, and otherwise increase the value of each dollar spent.

## Defining Strategic Sourcing

- " …the collaborative and structured process of critically analyzing an organization's spending and using this information to make business decisions about acquiring commodities and services efficiently…"

# Segmenting the Spend

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High

Strategic Value

Low

High

## Leverage

***The characteristics of "Leverage" commodities:***

-high expenditure levels,

-many alternative products/service

-numerous suppliers and

-readily available sources of supply.

## Strategic

***The characteristics of "Strategic" commodities:***

-complex specifications,

-few qualified supply sources, and typically

-large individual expenditures.

The quality of these products/services is critical. These commodities tend to be highly important to an agency mission and performance goals.

## Routine

***The characteristics of "Routine" commodities:***

-many existing alternate products/services,

-many sources of supply,

-relatively low value items, and

-many small individual transactions that are easily purchased.

These commodities are often items of everyday use.

## Bottleneck

***"Bottleneck" characteristics:***

-complex specifications requiring complex manufacturing or service processes,

-few alternate products available and

-few qualified sources of supply.

These commodities may impact ongoing agency operations or performance and may involve new technology or untested processes.

Low

***Complexity/Risk***

- Value is the relative importance of the item to the agency's mission and goals
- Complexity/risk is the degree of complexity of the category and risk to successful implementation

# Strategic Sourcing & EPM

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## Effectiveness
### (Mission Accomplishment)

| | |
|---|---|
| **Leverage**<br>***The characteristics of "Leverage" commodities:***<br>-high expenditure levels,<br>-many alternative products/service<br>-numerous suppliers and<br>-readily available sources of supply. | **Strategic**<br>***The characteristics of "Strategic" commodities:***<br>-complex specifications,<br>-few qualified supply sources, and typically<br>-large individual expenditures.<br>The quality of these products/services is critical. These commodities tend to be highly important to an agency mission and performance goals. |
| **Routine**<br>***The characteristics of "Routine" commodities:***<br>-many existing alternate products/services,<br>-many sources of supply,<br>-relatively low value items, and<br>-many small individual transactions that are easily purchased.<br>These commodities are often items of everyday use. | **Bottleneck**<br>***"Bottleneck" characteristics:***<br>-complex specifications requiring complex manufacturing or service processes,<br>-few alternate products available and<br>-few qualified sources of supply.<br>These commodities may impact ongoing agency operations or performance and may involve new technology or untested processes. |

High

*Strategic Value*

Low

**Segmentation & Strategic Alignment**

**Transformation to the High Performing Acquisition Process of the Future**

**Efficiency**
**(Cost Effectiveness)**

Contract → Requisition → Order → Receive → Invoice → Payment

**Process Improvement and Enterprise Spend Manage**

# Questions

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1. How do you identify ***the right acquisition strategy*** in a strategic sourcing analysis?
2. What do you believe should be done to improve your ***understanding of needs***?
3. What should you do to better understand your ***supply market and suppliers***?
4. How do you get control of a ***large sole source*** supplier? What strategies work for you?
5. In sum, in using strategic sourcing what are the ***key success factors***?